

PROGRAMME: Venture Capital Programme – Hungarian Jeremie
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1. SUMMARY OF GOOD PRACTICE

▪ Overview & Aims

Launched in 2009 the **Venture Capital Programme** is one of three funds set up by the Hungarian Jeremie Project to fill **the market gap in the country's underdeveloped seed capital market**. Managed by Venture Finance, a private limited company, the scheme was set up to help overcome the difficulties faced by **early stage SMEs** in raising finance.

A combination of high risk, high interest rates and a lack of collateral made classical seed funding in Hungary 'nearly impossible' with 75% of SMEs operating without loans or credit. With a relatively small population, a high proportion of micro firms and banks who consider any investment in SMEs a high risk, there were only a few market players willing to finance entrepreneurs in their start-up/seed financing stages. The Jeremie Project has enabled the government to establish a Fund of Funds and relay resources to innovative SMEs.

▪ Key Resources

– **Programme Partners:** Venture Finance Plc, Pannon Business Network

– Funding: Funding Body & SME Contribution

€330M. Funded by a mix of EU, State and private investment e.g. venture capitalists and banks.

▪ Eligibility Criteria

Innovative SMEs, start-ups and early stage businesses formally registered as Kft (Ltd) or Zrt (Plc) and with their head office located in Republic of Hungary

Early (seed or start-up) or growth stage enterprises founded < 5 years before the investment decision and with a net annual turnover of less than HUF 5BN/c€16M

▪ Terms and Conditions

Loans/Investments range from a minimum of €150K to a maximum of €2.5M. The amount of SME investment covered by the instrument depends on each case, up to 100% in some cases.

Repayment terms range from 5 to 7 years with interest rates that are considered expensive, (2-3 times higher than normal bank interest rates).

2. IMPLEMENTATION

▪ Key Steps – How it Works

Funds invested in the Hungarian Jeremie Project are used to **leverage additional finance**. Originally established with three programmes; the Micro and Small Credit Programme, the

Portfolio Guarantee for Credit Financiers and the **Venture Capital Fund**, individual programme partners and fund managers are tasked with raising a fixed proportion of additional commercial funding from private investors/VCs, banks etc, adding to the resources committed to the Jeremie Project.

The Venture Capital Programme is **operated and managed by 21 Venture Capital Fund Management Companies**, experienced financial intermediaries who are also likely to be operating other loan and loan guarantee schemes, enabling them to offer and extend the options available to the enterprises involved. It is not normal practice to offer additional support, i.e. business advice/support with venture capital funds.

Set up with a 'Joint Fund' and 'Co-Investment Structure' alleviating the need for collateral, the ratio of private/public sector investment in each VC fund is 30/70 with **private investors acquiring a minimum 30% stake and Venture Finance Hungary Plc acquiring a stake of up to 70%** of the Joint Fund at any given time. Aimed at different target enterprises, each 'sub fund' has different eligibility criteria.

The mix of funds includes:
 The **Széchenyi Venture Capital Programme**, mainly a **GROWTH Capital Programme** with 4 tenders running alongside a smaller **SEED Sub-Programme** with allocated resources of €20M aimed at small/micro enterprises operating for < 3 years.
GROWTH Capital Programme also operated by the **Széchenyi Venture Capital Programme** with allocated resources of €337M aimed at SMEs operating for <5 years run by 24 different private Fundmanager companies using the funds to raise additional capital from private investors

▪ **Key Stats**

Set up in 2009 and running until 2015 results up to the end of 2013 are as follows:

KEY MEASURE	ESTIMATED TOTAL
Number of Funds Created	23 Joint Growth Funds 4 Joint Seed Funds 1 Co-investment Fund
Total Budget Raised – 'Fund of Funds'	€357M
Number of Investment Decisions	170+
Funds Invested to Date (typically IT/Biotechnology projects)	€200M
Average Amount Invested	€1.2M
New Jobs Created	Not possible to calculate
Results/Initial Success Stories	4 exits to date

The application process is considered difficult with funding decisions taking 3-9 months. Application costs range from €4-10K. Partner administration costs account for 3-5% of the fund.

At least 80% of the total fund value must be invested in enterprises, with remaining funds used for partner administration and operational costs.

3. KEY LEARNING POINTS & OPPORTUNITIES

The Hungarian initiative is a pioneer in Jeremie Funding. Benefits from the scheme include improved prospects for start-ups. SMEs are now encouraged to undertake research and development and get involved in innovative projects

▪ **What worked well/strengths**

- The availability of financial resources i.e. a large fund, providing access to finance for start-ups and ‘risky projects’
- The development of a very active group of private co-investors
- Provides security to investors. Good conditions

▪ **Challenges/Weaknesses**

- The scheme has been affected by the number of ‘special conditions’ imposed, reducing the number of SMEs who can apply and who qualify for the funds
- Very expensive rates of interest/investments
- A low number of investment projects. The variety of issues involved means it is still difficult for ‘capital hunter SMEs’ to step on the starting line

▪ **Transferability**

- Opportunities: The scheme is considered a good practice that can be implemented in other regions
- Threats: The low number of investment ready projects available

FURTHER INFORMATION:

DIFASS You Tube Channel - <http://www.youtube.com/watch?v=utaFdIdYVRU>
<http://www.mvzrt.hu/content.php?id=0>